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A subsidiary of Pinnacle West Capital Corporation



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AZ CORP COMMISSION
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Commissioner William Mundell
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85072

E-01345A-06-0009

Dear Commissioner Mundell:

It has been brought to my attention that while I have been out of town the last few days you expressed a feeling that I misled people concerning suspension of APS officer incentive pay for 2005. I pride myself in being forthright and I am surprised anyone feels misled.

I was clear in my public discussions with the media and testimony at the Commission that I was addressing suspension of incentive pay for APS officers. The transcript of my testimony on January 24 and my letter to Commissioner Mayes of February 17, 2006 both state that only officers had their pay incentives suspended. As I have told the Commission and others, consideration of this action began in December, and the Board made the decision because they believed it was the right thing to do.

The incentive pay for all of our employees is pay that has been earned based upon their performance and has helped us achieve results that are higher and more efficient than ever before. For example, the practice of connecting pay to performance, for every employee of the Company has allowed us to reduce our workforce by 7 percent while adding 300,000 customers over the past decade, reduce our price in the 1990s and early 2000s by 16 percent, increase our customer satisfaction, as measured by J.D. Powers, to the highest investor owned utility in the West and to attract and maintain competent employees who can get the job done.

You are a regulator and an individual who understands the importance of ethical and honest behavior, of doing the right thing. I know you have that expectation of yourself and of the companies you regulate. At APS, we have very much appreciated your acknowledgment and public comments in the past of the high ethical standards and practices that are central to our company's philosophy and culture.

D O I N G T H E R I G H T T H I N G



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Standards of Business Practices

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A LETTER FROM BILL POST

Dear Colleagues:

The strength of a company cannot be measured solely by earnings and stock price. A truly strong company is one that produces positive results while also operating with honesty and integrity.

Never has the spotlight on corporate ethical behavior been as bright as it is right now. The well-publicized missteps of several high-profile businesses have generated considerable public scrutiny of the corporate world.

Pinnacle West is a strong company financially, operationally and ethically. We have been lauded by independent third parties for the way we do business. And yet, for all our efforts to instill and live within a common ethical mindset, it still only takes one individual and one error in judgment to change our stellar reputation.

For this reason, we have put together this updated version of this booklet, aptly titled "Doing the Right Thing." This booklet contains details on our company's Ethics Policy and Standards of Business Practices, which comprise our Business Practices Program. All members of the Pinnacle West family of companies are responsible for conducting themselves in compliance with the policies, laws and regulations detailed in this booklet.

Our company's reputation, financial standing and ultimately its future, rely upon an unwavering commitment to safety, honesty, integrity, accountability, caring and respect. These values are the foundation upon which our company is built. Remember, we are measured by the perception of our actions, not by our intent. It is up to each of us to be accountable to this high standard of conduct.

Thank you.

A handwritten signature in black ink that reads "Bill Post". The signature is written in a cursive, flowing style.

Bill Post
Chairman and CEO, Pinnacle West

OUR VALUES

As members of the Pinnacle West family of companies,
we hold ourselves to the highest ethical standards.

Above all else, we value:

- Safety
- Honesty
- Integrity
- Accountability
- Caring
- Respect

We will never compromise these values.

INTRODUCTION

This booklet applies to all full-time and part-time employees, officers and Board members. It offers important information about Pinnacle West's Ethics Policy and our Standards of Business Practices, which taken together, comprise the company's Business Practices Program.

We are personally committed to demonstrating the highest standards of ethical business conduct and obeying all laws and regulations, as well as other company policies and procedures.

We conduct our business with honesty and integrity. Therefore, we will not:

- Violate any federal, state or local laws or regulations.
- Steal or misappropriate company property or the property of another.
- Commit fraud by using false representations or statements to purposely mislead someone.
- Lie, cheat or steal.
- Injure others or their property.
- Offer, give or accept bribes.
- Conduct ourselves, on or off the job, in a way that might seriously or adversely affect the company's reputation.

People will not judge our ethics by what we say or intend. They will judge us by what we do.

These rules are fundamental, and they apply to everyone. We know we will be measured by our actions, not our intentions. Further, we take seriously our responsibility for reporting immediately any violation or suspected violation of our Ethics Policy and/or our Standards of Business Practices.



ETHICS POLICY

Pinnacle West's Ethics Policy provides guidelines for ethical business conduct. These guidelines help ensure we act with integrity, and avoid any real or perceived violations of this policy, laws or regulations.

Company Resources

We are personally responsible for company funds or other assets placed in our control.

The use of company resources including corporate information, facilities, vehicles, long-distance telephone calls, computers, fax equipment or supplies for personal gain outside of our employment (such as an outside business interest, a second job or a remodeling project) is generally prohibited. Exceptions require approval from an immediate leader or management.

However, occasional use of company resources (such as the telephone or computer) for personal reasons is acceptable so long as it does not interfere with job performance or violate company policy.

We show particular concern for computer software and data security. We do not copy or distribute any company-purchased licensed software, unless permitted by the license agreement and the company's policies. We do not install non-standard or personal software without prior authorization from Information Services.

Company Opportunities

We are responsible for advancing the company's business interests when the opportunity to do so arises. We must not:

- Take opportunities for ourselves that properly belong to the Pinnacle West family of companies, or are discovered through the use of corporate property, information or position.
- Use company information or position for personal gain.
- Compete with the Pinnacle West family of companies.

Avoid any personal or financial interest that could impair, or appear to impair, your ability to make an objective business decision.

Supplier/Contractor Relationships

We apply the highest standards of ethical conduct to anyone who buys or sells goods or services, or who influences those supplier/contractor transactions or relationships in any way.

We will:

- Respect and maintain the confidentiality of any proprietary information shared with our company or a supplier.
- Never offer or accept a bribe.
- Never offer or accept business entertainment that could be considered excessive. Good sense and reasonable business justification should prevail.
- Not allow vendors to pay travel expenses without the approval of an officer.
- Avoid any personal or financial interest that could impair, or appear to impair, the ability to make an objective business decision.

Giving and Accepting Gifts

Giving and receiving gifts might be one of life's simple joys. But in the business world, it deserves some serious consideration.

In fact, there is a potential problem with taking gifts or favors from business associates or people who want to do business with our company. Accepting a gift from a vendor, customer or prospective service provider can be perceived to influence our objective, professional decisions or create a sense of obligation.

Questionable gifts could include awards, pleasure trips, raffles, door prizes, services, payments, refunds, rebates, special discounts, excessive or elaborate entertainment or privileges, and loans that are not from lending institutions at prevailing interest rates.

We can accept a gift, entertainment, meal or social invitation only if it:

- Is offered infrequently and is of nominal value.
- Is customary and a part of normal business practices.

- Imposes no sense of obligation on the giver or recipient.
- Involves no special treatment, such as free services or special discounts.
- Is not a loan or payment from a vendor, contractor or other business contact.
- Would not be perceived as likely to influence our business judgment.
- Would be appropriate to reciprocate in a similar manner at company expense.

We follow the same guidelines when we are giving a gift, entertainment or favor to others outside the company.

Special rules that apply to gifts for political candidates, government agencies and public officials can be found in the Standards of Business Practices section of this booklet.

For business dealings outside the U.S. or with representatives of governments, federal law governs gift giving. Providing meals, entertainment or travel to foreign officials may be illegal under the Foreign Corrupt Practices Act and/or the laws of the host country.

Company Information

Much of the information we handle every day is strictly confidential, and protecting it is a top priority.

We will never:

- Use confidential information for personal financial advantage or release it to unauthorized people inside or outside the company.
- Disclose information that would give a vendor an unfair advantage in bidding on work for the company.
- Use or disclose confidential information or trade secrets that belong to former employers, competitors or other companies, without written permission.
- Knowingly sign documents that are inaccurate, false or violate company policies and procedures.
- Loan or give an employee ID badge to anyone.
- Withhold the truth during a company investigation.
- Disclose computer passwords.

Conflicts of Interest

All business decisions must be made in the company's best interest. A conflict of interest arises when our judgment is influenced by considerations of improper personal gain or benefit to us or another person. Situations that create the appearance of a conflict may also adversely affect the company's interests. We should exercise judgment in recognizing and resolving conflicts or potential conflicts of interest before engaging in activities in which these issues may arise.

We will:

When considering
potential conflicts of
interest, remember that
the perception of
wrongdoing can be as
harmful as actually
doing wrong.

- Avoid doing anything which results in improper personal benefit.
- Avoid anything that would adversely affect the company's interests.

Outside Business Interests

You may choose to become involved in business interests outside the company. This is a personal decision, except for situations in which your involvement in the outside business interest:

- Creates a conflict of interest.
- Adversely affects the company's interests.
- Negatively affects job performance.

In such cases, disclosure must be made and approval received if, for example, you take a position as an employee, officer, Board member or consultant or acquire a significant ownership interest in a business that:

- Does business with the Pinnacle West family of companies (e.g., Pinnacle West Capital, Arizona Public Service, APS Energy Services, Pinnacle West Energy, SunCor and El Dorado Investment), as a vendor or
- Is a competitor (including other energy providers) of the company.

Disclosure must also be made and approval received if you hold a position with the company in which you make procurement decisions related to your outside business interest.

Disclosure of such outside business interest *must be made to your immediate leader and the Business Practices department*. A determination will be made as to whether a conflict exists or the company's interests would be harmed. You will be responsible to follow any company recommendations in resolving or avoiding any conflict or potential conflict.

This requirement applies to all members of the Pinnacle West family of companies and their households. Excluded from this requirement are transactions as an investor in publicly traded securities, except as discussed in the Standards of Business Practices section.

Ethics Policy Means Business

Individuals who violate the Ethics Policy put themselves and the company at the risk of facing serious legal consequences, including criminal penalties. Ethics Policy violations will result in disciplinary action, up to and including termination of employment.

Periodically, you will be required to take a training course and will be asked to sign a document stating that you understand and are in compliance with the Ethics Policy, and have disclosed all situations that may present a conflict of interest.

Reporting Violations of the Ethics Policy

We have a responsibility to report any violations or suspected violations of the Ethics Policy. First, talk with your immediate leader or the Business Practices department (602-250-2979 or 602-250-3235). You can also call the HelpLine* (1-800-446-8441) or, if you work at the Palo Verde Nuclear Generating Station, the Palo Verde Employee Concerns Program (623-393-2702 or 1-800-293-6498).

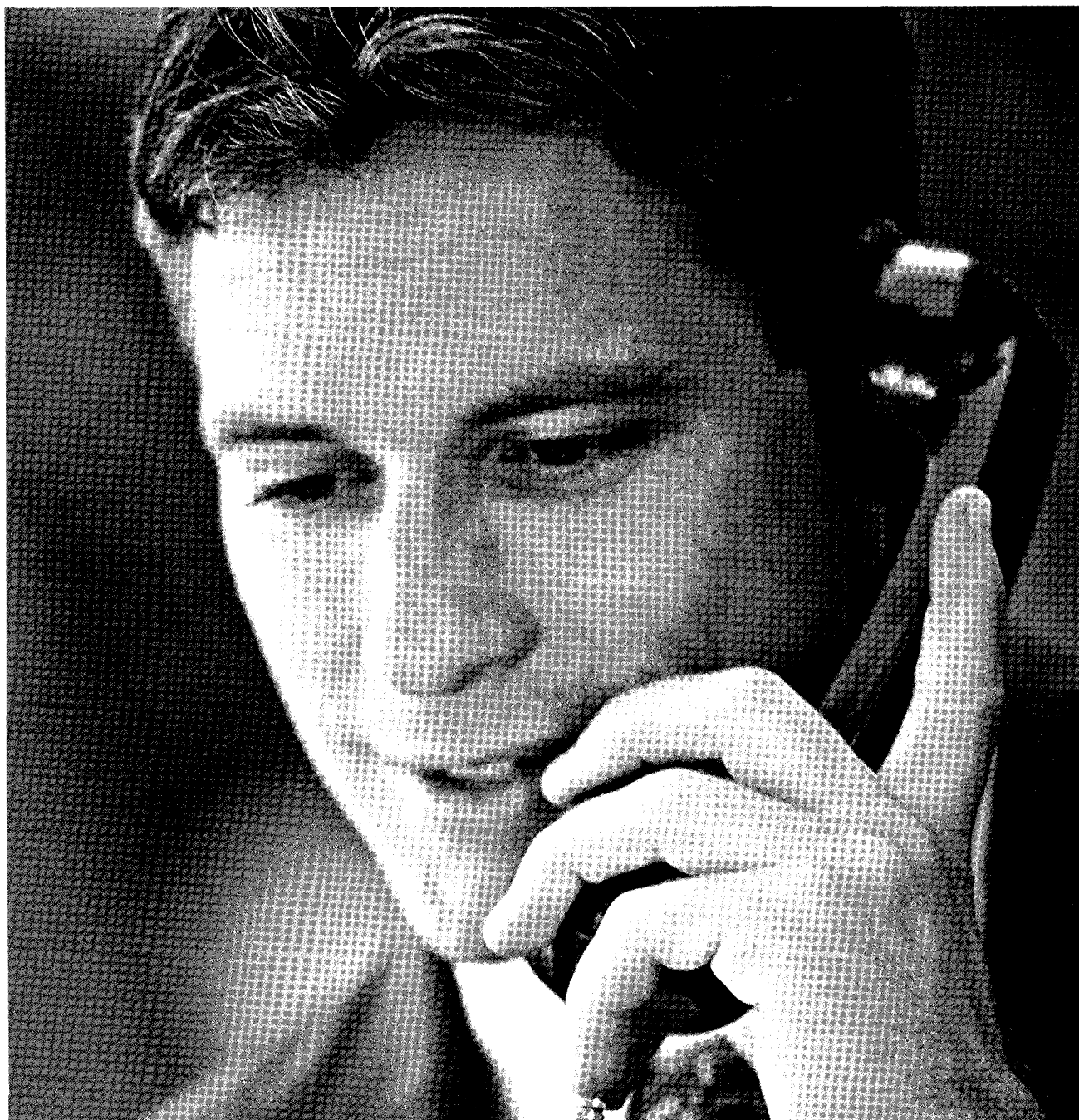
Retaliation against anyone who makes a good faith report of misconduct will not be tolerated. We will take appropriate disciplinary action, up to and including termination of employment, against individuals engaging in any retaliatory conduct. If you suspect you or someone you know has been retaliated against for reporting possible misconduct, you should contact your immediate leader, the Business Practices department, the HelpLine or the Palo Verde Employee Concerns Program at the numbers listed above.

Note:

Nothing in this policy should discourage you from reporting any suspected illegal activity, any nuclear safety, workplace safety, public safety or environmental concern to the U.S. Nuclear Regulatory Commission (NRC), the U.S. Department of Labor or any other federal or state governmental agency. Also, this policy should not be construed to prohibit employees from participating in any state or federal administrative, judicial or legislative proceeding or investigation.

This policy cannot be waived.

- * In order to provide 24 hours a day, 7 days a week coverage for the HelpLine, Pinnacle West has contracted with an outside third party. The name, HelpLine, and the toll free 800 number will remain the same. The third party will not investigate the allegations or concerns received, but will forward them to the appropriate company resource for investigation and resolution.





STANDARDS OF BUSINESS PRACTICES

Our Standards of Business Practices define our obligation to follow laws and regulations, codes and standards of conduct and the company's policies and procedures.

Only some portions of the Standards of Business Practices might directly apply to you or your job. Still, it's a good idea to review and understand all the Standards so you can confidently handle any situation you might encounter.

Abiding by the Standards of Business Practices and the company's Ethics Policy is a condition of employment with the company. We can be held personally liable for ethical or legal violations. Other serious consequences may include disciplinary action, up to and including termination.

If this booklet doesn't address a particular business situation, talk with your leader or with the Business Practices department.

If you suspect a violation of law or policy has occurred, it is your duty to report it to your immediate leader or the Business Practices department (602-250-2979 or 602-250-3235), or you can call the HelpLine (1-800-446-8441) or, if employed at Palo Verde, the Palo Verde Employee Concerns Program (623-393-2702 or 1-800-293-6498).

If any violations are confirmed, we will address them immediately.

Employment

Pinnacle West is an Equal Opportunity Employer. We comply with equal employment opportunity laws to ensure people are treated fairly throughout the employment process.

We will never, based on race, color, national origin, religion, age, veteran's status, marital status, gender, sexual orientation, disability or perceived disability:

- Fail to hire or promote a person.
- Treat a person differently in his or her employment, or in the company's disciplinary and discharge policies.
- Harass any person or allow harassment.
- Segregate or sponsor functions that segregate except where the interests of privacy for the sexes is required.

We treat people fairly. We will never:

- Fail to cooperate openly and truthfully during an investigation of complaints about a person's employment.
- Retaliate against anyone who makes a complaint about equal employment opportunity.

We believe the workplace should be free from harassment. We will affirm the company's policy prohibiting sexual harassment. We will not participate in other forms of harassment such as ridicule, telling or distributing unwanted jokes, displaying offensive materials or making slurs based on race, color, national origin, religion, age, veteran's status, marital status, gender, sexual orientation, disability or perceived disability.

The company prohibits such conduct on the part of all members of the Pinnacle West family of companies at all levels, as well as its visitors and clients.

The company employs people who are related by birth or marriage. However, individuals should not hold positions in which a family, personal or outside business relationship might affect, or be perceived as influencing, their ability to make objective decisions. All such relations must be disclosed and reviewed by the individual business unit officer.

We understand
compliance with the
law is the minimum
expectation
of our company.

Labor Management Relations

The company recognizes the right of every employee to organize and bargain collectively through representatives of his or her own choosing.

We will not:

- Offer a bribe to employees or employee representatives to try to influence them in exercising their rights to organize or bargain collectively.
- Offer a bribe to labor organization representatives to influence their duties, decisions or actions on behalf of employees.
- Promise, pay, lend or deliver money or other valuables in an attempt to influence employees in exercising their rights to organize and bargain collectively.

Contract Labor

Under a contract with the company, an outside contractor agrees to provide its employee to work at company facilities. Company leaders establish work expectations for the employee and offer direction. Legally, the company is not the employer. Matters such as hiring, discipline, pay increases, bonuses, paid time off and benefits are the contractor's responsibility.

To avoid interfering with contract labor agreements, we will:

- Refer contract employees to their contractors when they have questions about their employment agreement.
- Notify the contractor when job performance or discipline issues arise.
- Contact the contractor to discuss potential bonuses or other incentives.
- Continue to oversee the contract employee's work.

We will not:

- Make any oral or written statement that suggests the contract employee is employed by our company.
- Distribute any "company employee only" information to the contract employee.

Health and Safety

Safety affects all of us. It affects our health, our families, our very lives. Ultimately, it also affects the health and well-being of our entire organization.

Each of us is responsible for the safety of our fellow employees and the public. We observe all company safety rules and practices. We comply with all federal, state and local safety laws and regulations. We watch out for unsafe working conditions and report and/or correct them immediately.

Safety is at the very
core of our businesses.
We will not just talk
about safety.
We will live it and
breathe it.

Substance Use, Possession and Abuse

The company takes pride in fostering a work environment free from the illegal and inappropriate use of drugs and alcohol.

Inappropriate use or abuse of any controlled substance is unacceptable, violates company policy and is subject to disciplinary action. Inappropriate use of prescribed medications or failure to report to supervision or Health Services the use of medications that may impair performance is also a violation of company policy and is subject to disciplinary action.

We will not:

- Sell, purchase, possess, use or manufacture controlled substances on the job or on company property.
- Sell, purchase, possess or consume alcohol on the job or on company property.
- Use drugs or alcohol off the job in a way that might impair job performance or seriously and adversely affect the company's reputation.
- Attempt to falsify or adulterate a drug or alcohol test.

Each of us will be expected to participate in testing programs, including random testing. Additional testing may be required by regulatory agencies such as the NRC and the Department of Transportation or company policy.

Company policy allows management to request drug or alcohol testing for any individual whose job performance or behavior indicates he or she might be under the influence of drugs or alcohol. The presence of alcohol or a controlled substance in an individual's system while on the job, in or on company property including company vehicles, or while performing duties, is a violation of company policy and subject to disciplinary action, up to and including termination.

All individuals who are licensed nuclear operators, firefighters or armed security officers must report all use of prescription medication, with the exception of birth control pills, to either their leaders or Health Services.

Also, individuals who hold unescorted access to the protected area of Palo Verde, and other company individuals assigned to work at Palo Verde, are subject to the Palo Verde Fitness for Duty policies and must report to their leaders or Health Services any observations of behavior or condition indicating they or another person might not be fit for duty.

Individuals convicted of a drug statute violation that occurred on the job or on company property must report that conviction in writing within five days to their Human Resources Consultant or Fitness for Duty leader.

Nuclear Safety

The company's nuclear operations and facilities are required to obey certain laws and regulations.

All members and representatives of the Pinnacle West family of companies must also comply with the operating licenses issued to Palo Verde by the NRC.

The following list contains examples of activities that raise legal or regulatory issues. It is unlawful and/or against company policy to:

- Violate federal, state and local laws or regulations as they pertain to nuclear matters.
- Violate the operating licenses, as amended, that are issued to Palo Verde by the NRC.
- Violate NRC orders.
- Violate an individual's rights to raise and discuss his or her concerns with the company or the NRC without fear of retribution, retaliation or termination.
- Falsify or withhold information from federal, state and/or local authorities.

Environmental Protection

We care about the environment, and we protect it by complying with all federal, state, county and municipal environmental laws and regulations.

We will:

- Obtain environmental permits for constructing or modifying equipment, systems or processes, or for any other activity that requires permits.
- Comply with all applicable permit conditions and regulations.
- Obtain appropriate permits for discharging, spilling, emitting or releasing pollutants into the environment.
- Notify the appropriate environmental agency of discharges, releases, emissions and spills of pollutants into the environment.
- Follow appropriate regulatory requirements addressing cleanup or remediation of pollutant spills and releases.

- Identify all waste streams, and properly store, transport and dispose of wastes.
- Make timely, accurate and full reports to environmental agencies.
- Keep accurate records for the required retention period.
- Respond to, or immediately remedy, any known environmental or health hazard or noncompliance situation.

Hazardous Materials Management

Company operations require the use of certain substances that are legally defined as hazardous because they are combustible, flammable, corrosive, explosive, toxic or radioactive.

We handle these substances with extreme care to protect company personnel, contractors, the public and the environment. Handling refers to proper use, storage, transport and disposal.

We will not:

- Use or store hazardous materials in a way that violates the law, our company procedures or the manufacturer's instructions.
- Use or store hazardous materials in a way that exposes company personnel, contractors, members of the public or the environment to threatened or actual harm that can result from inappropriate management.
- Transport hazardous materials in containers or packages that are not properly prepared and labeled.
- Transport hazardous materials in vehicles, vessels, railroad cars or aircraft not properly placarded to warn of the risks.
- Inaccurately, incompletely or falsely describe hazardous materials in shipping or transport papers.
- Dispose of hazardous materials in a way that exposes company personnel, contractors, members of the public or the environment to the risks posed by the materials.

The company's environmental and safety procedures also detail proper techniques for handling hazardous materials.

Confidentiality is the
most fundamental form
of protection.

Confidentiality

Some of the company's most valuable assets include business plans or other information the company maintains in confidence. We are responsible for protecting any business information that is proprietary or confidential.

Confidential information should not be disclosed to any outside party without permission. This obligation continues even after ending employment with the company. Further, after leaving the company, we are prohibited from copying or retaining any documents or other materials that contain confidential information.

We should not release information that could jeopardize the security of our company's critical facilities (i.e., power plants and our transmission, distribution, communications and computer network systems). We should not release security-sensitive information regarding critical facilities to those without a business need to know. Security-sensitive information (such as maps, reports, photographs, drawings, etc.) should not be placed on our Internet or intranet sites, public servers or in Public Folders. Unauthorized creation of such information is prohibited.

Individuals may be required to sign agreements about using specific company confidential information and intellectual property as a condition of their employment.

Intellectual Property

Good ideas can be of
great value.

Intellectual property refers to commercially valuable ideas and information that are not widely known. Intellectual property is an asset that must be protected. It includes trade secrets, patents, copyrights and trade/service marks. We must continually take measures to ensure the company's intellectual property is protected by federal and state laws.

All inventions created by an employee on company time, within the scope of his or her employment which relate to the company's business, or using company facilities, equipment, staff or intellectual property, are the exclusive property of the company.

Each of us will protect the company's intellectual property and respect the intellectual property rights of others, including former employers or competitors.

Trade Secrets

All intellectual property is first protected as a trade secret. Trade secret laws prohibit misuse of confidential information when the owner takes reasonable steps to protect the information from public disclosure. Using non-disclosure, confidentiality agreements and keeping confidential information in a safe place are good ways to protect trade secrets.

To protect our trade secrets and avoid violating trade secret laws, we will:

- Never share with others outside of the company any confidential or proprietary company information or trade secrets without a leader's permission.
- Never share with others or use confidential information or trade secrets of other parties, such as former employers, competitors or companies with which the company is working.
- Determine whether the information is protected by a nondisclosure agreement, or if an implied obligation of confidentiality exists before using or disclosing the information to a third party.

Patents

One form of protection given to trade secrets that meet certain criteria is a patent. Patent laws give an inventor exclusive rights to make, use and sell the patented invention. Once a patent is issued, the invention is protected.

To protect our patentable ideas and avoid violating patent laws, we will:

- Inform leaders immediately about any invention we create during our employment with the company.
- Request a patent search to determine if an invention infringes upon an existing patent or if the invention should be patented.
- Never disclose, sell or give to others a new process or device made and used internally.
- Inform the Law department immediately if we mistakenly infringe on third-party patent rights so action can be taken to avoid potential liability.

Company information
not generally known is a
trade secret.

Copyrights

Copyright laws automatically provide protection when an original work of authorship (such as a book, article or computer software package) is produced. These are called protected works.

Only the author has the right to reproduce or display the protected work, and to create copies from it. The copyright laws protect the way the author says it, but not the author's ideas themselves. Contrary to popular belief, neither a copyright notice nor registration of the protected work is required for protection.

To protect the company's intellectual property and ensure work activities do not violate copyright laws, we will:

- Receive prior review and approval of works for distribution outside of the company.
- Follow Copyright and Patent Compliance Procedure #33-01 for copying the information of others.
- Obtain the express permission of management prior to using the company's copyrighted information for purposes other than company business.

Trademarks

Trademark laws protect consumers from confusion about the source and quality of goods or services. Trademarks generally are slogans, names or symbols. Trademarks may become protected either by registration or actual use.

To protect company trademarks and ensure we do not violate trademark laws, we will:

- Perform a trademark search when adopting a slogan, name or symbol for goods or services.
- Never use the company's trademarks or logos for purposes other than company business.
- Never use third-party trademarks or logos without prior permission of the third party.

Insider Trading

Federal and state laws and Securities and Exchange Commission regulations make it illegal for us to buy or sell securities, such as Pinnacle West stock, when we have “inside information.”

Inside information is any significant information about the company that is not publicly known, such as information an investor would consider important in making an investment decision. This prohibition includes any transactions in the company's securities, including transfers between funds in the company's Savings Plan.

Sharing inside information with others who do not need to know that information for business purposes is also prohibited.

We should not engage in any transactions in company securities until a sufficient time has elapsed for the significant information to be disseminated to the general public.

Individuals who violate insider trading laws could face disciplinary action, up to and including termination, as well as substantial civil and criminal penalties. The company also can be held responsible for an individual's misconduct.

Dealings with Public Officials

The company maintains honest and professional relationships with public officials, government employees and representatives. Members of the Pinnacle West family of companies lobby members of legislative bodies, meet with regulatory authorities, submit reports and filings to government agencies, and work with government representatives during inspections of company facilities, property or documents.

In our dealings with public officials, we will not:

- Influence or attempt to influence public officials by offering gifts, gratuities or other promises of reward or benefit.
- Offer or accept bribes.
- Intentionally submit incorrect, misleading or fraudulent information, in written or oral form, to a public official or a government agency.

Political Participation

We encourage all members of the Pinnacle West family of companies to participate in the political process. There are rules that define proper conduct for participation and limit the amount of money or other contributions to candidates for elected office.

Laws governing corporate campaign contributions are very complex. In general, corporations cannot make campaign contributions. But laws do permit political action committees – or PACs – to solicit contributions from management, members of the Pinnacle West family of companies and shareholders.

In supporting the political process, we will not:

- Influence or attempt to influence public officials by offering gifts, gratuities or other promises of reward or benefit.
- Offer or accept a bribe in connection with an election.
- Make a campaign contribution or expenditure in the name of the company or on its behalf.
- Reimburse anyone who makes a contribution to the Pinnacle West PAC.
- Submit false, incomplete or misleading reports to government agencies that oversee and enforce campaign finance laws.

Contributions or public support for candidates running for the Arizona Corporation Commission (ACC) may be attributed to the company. This could create a perception of impropriety on the part of both the company and the candidate. The potential for placing the company and the candidate in this situation should be considered before making a personal contribution or public show of support.

Antitrust

Antitrust is a body of federal and state laws that addresses how the company does business with customers, competitors and vendors.

In every industry, it is illegal for a seller or buyer to exercise unreasonable economic control over the marketplace. As an example, this kind of situation can arise when competitors agree to charge the same or similar prices for their products.

We buy electricity from, and sell it to, other electric utilities, and cooperate in many ways with others in our industry nationwide. We also purchase commodities and services from a variety of vendors.

To avoid antitrust law violations, we will never:

- Agree with competitors on how to price goods or services.
- Agree with competitors on what to bid.
- Agree with competitors on whom to buy from or sell to.
- Agree with competitors to fix other terms and conditions of sale, such as credit terms and quantity discounts.
- Agree with competitors on the allocation of customers or markets, geographically or otherwise, unless the ACC has approved such an agreement.
- Force any customer to buy a good or service as a condition of buying another good or service.
- Purchase goods or services from a supplier on the condition that the supplier will purchase other products or services from the company.

If we are uncertain whether our actions would raise antitrust issues, we will contact the Law department.

Federal Communications Commission

Pinnacle West and its subsidiaries rely on mobile radios, microwave facilities and other communications equipment such as transmitters, antennas and towers to ensure timely, efficient delivery of electricity and to protect public safety. Our authority to operate such equipment is governed by licenses granted by the Federal Communications Commission (FCC).

To reduce the risk of an inadvertent violation and to ensure any violation will be remedied promptly, Pinnacle West has centralized its FCC licensing procedures. Company legal counsel should be contacted with regard to any uncertainties involving the application of the FCC's rules.

Individuals involved with FCC licensing activities and other communication functions will:

- Receive, review and acknowledge their understanding of the company's FCC Compliance Manual, relevant FCC rules and regulations and the company's related policies.
- Attend annual training sessions that address FCC licensing rules and policies.
- Cooperate with the company's monitoring or audit of telecommunication operations or records.

Foreign Corrupt Practices Act

Generally, the Foreign Corrupt Practices Act prohibits American companies from making corrupt payments to foreign officials to either obtain or retain business. We should consult with the Law department before making any payment to foreign government officials, politicians or political parties.

Sarbanes-Oxley Act of 2002

New legislation, including the Sarbanes-Oxley Act of 2002, has brought on a heightened awareness of corporate financial reporting and responsibility at the Securities and Exchange Commission and the New York Stock Exchange. In addition, new levels of reporting and compliance have been established.

Those company individuals responsible for the gathering, recording and/or reporting of financial information to governmental agencies or authorities must exercise due care in the collection, handling and reporting of that financial information. "Due care" means using your best efforts to ensure the information is complete, accurate and in compliance with applicable governmental rules and regulations.

We will:

- Respond accurately and honestly, in verbal or written form, to public officials or governmental agencies.
- Retain or destroy records according to the company's record retention policies.
- Report all violations to the Business Practices department.

Accuracy of Company Records – Accounting and Auditing Practices

The records, data and information owned, used and managed by the company must be accurate and complete. We are responsible for the integrity of the information, reports and records under our control. Records must be maintained in sufficient detail to accurately reflect the company's transactions.

It is the company's policy to fully and fairly disclose the financial condition of the company in compliance with applicable accounting principles, laws, rules and regulations. Our financial statements must always be prepared in accordance with generally accepted accounting principles and fairly present, in all material respects, the financial condition of the company.

The company has an internal audit department to ensure adequate financial controls and compliance. In addition, the Audit Committee, whose responsibility includes assisting the Board in monitoring the integrity of the company's financial statements, retains an independent auditor to audit the company's financial statements.

If you have any concerns about the company's accounting, internal controls or auditing matters, you must contact the Business Practices department (602-250-2979 or 602-250-3235) or call the HelpLine (1-800-446-8441).

Arizona Corporation Commission (ACC) Code of Conduct

The ACC oversees much of the electric power industry in Arizona, including APS. The ACC regulates public utility rates, utility finance and quality of service.

Through APS, Pinnacle West will conduct its electric utility-related business in Arizona as required under the ACC's Electric Competition Rules and other ACC-mandated requirements.

The ACC Code of Conduct, as presently approved by the ACC, guides communications and transactions between APS and certain of its competitive electric affiliates in areas such as: accounting, joint marketing, confidential information, customer inquiries, reporting, separation of function and inter-affiliate transfers of goods and services.

The ACC Code of Conduct applies to all employees and authorized agents of APS. Violating the ACC Code of Conduct can have serious consequences for APS.

If you have questions about ACC Code of Conduct issues, you should contact the Business Practices department (602-250-2979 or 602-250-3235).

Federal Energy Regulatory Commission (FERC) Codes and Standards of Conduct

FERC regulates transmission and wholesale sales of electric energy in interstate commerce. FERC strongly influences how electricity is provided within the U.S. by establishing, implementing and administering national energy policies.

For example, FERC requires APS to provide transmission service on a non-discriminatory basis through open access for all. The agency approves APS' transmission and wholesale power rates. It establishes accounting and financial reporting regulations, along with other reporting and recordkeeping requirements.

FERC's policies are carried out, in part, through specific rules of conduct that govern interactions among the Pinnacle West companies.

The FERC Codes of Conduct address the relationship between APS, our regulated electric transmission and delivery company, and any marketing affiliate that may sell or resell energy and capacity at market-based rates (this includes APS Energy Services, Pinnacle West Energy and Pinnacle West).

The Code of Conduct for each requires that:

- APS employees should work and operate separately from affiliates to the maximum extent possible.
- Special pricing applies to sales of non-power goods or services between APS and an affiliate.
- Affiliates that broker power for APS can do so only on a non-exclusive arrangement, must offer APS' power first and cannot charge a fee.

The FERC Standards of Conduct govern the relationship between APS' transmission group and APS' Marketing and Trading department, as well as any APS affiliates engaged in wholesale electric energy sales.

The Standards of Conduct impose restraints on transmission, communications and operations to ensure there is non-discriminatory treatment of equal access in the provision of transmission services to all.

Violating FERC's Codes of Conduct and/or its Standards of Conduct can have serious consequences for the company in the competitive electric marketplace.

If you have questions about FERC Codes/Standards of Conduct issues, you should contact the Business Practices department (602-250-2979 or 602-250-3235).



OUR ROLE IN THE SUCCESS OF THE BUSINESS PRACTICES PROGRAM

We all have a responsibility to make sure our Business Practices Program works. Each of us can help by following these rules:

- Read this entire booklet thoroughly and become familiar with it – especially the portions that apply specifically to your job.
- Read the information the company regularly distributes about compliance.
- Think about how compliance issues affect your job, and plan for them.
- If you don't understand something in the Ethics Policy or the Standards of Business Practices, talk with your immediate leader. If your leader can't answer your questions, he or she will contact someone who can provide information quickly.
- Participate in ongoing training related to the materials in this booklet.

Don't be reluctant to discuss your concerns with your immediate leader or the Business Practices department (602-250-2979 or 602-250-3235). You can also call the HelpLine (1-800-446-8441) or, if you work at Palo Verde, the Palo Verde Employee Concerns Program (623-393-2702 or 1-800-293-6498).

The company will not tolerate any acts of harassment or retaliation against any employee for identifying a concern to management, the HelpLine, the Palo Verde Employee Concerns Program or any governmental agency.

Remember:

The reputation of our
company depends on the
ethical conduct of every
employee.

How Can You Be Sure You're Doing the Right Thing?

No matter what job you do, you make decisions every day that affect the company and your co-workers. Sometimes, complex and difficult circumstances can blur the line between right and wrong.

Ask yourself:

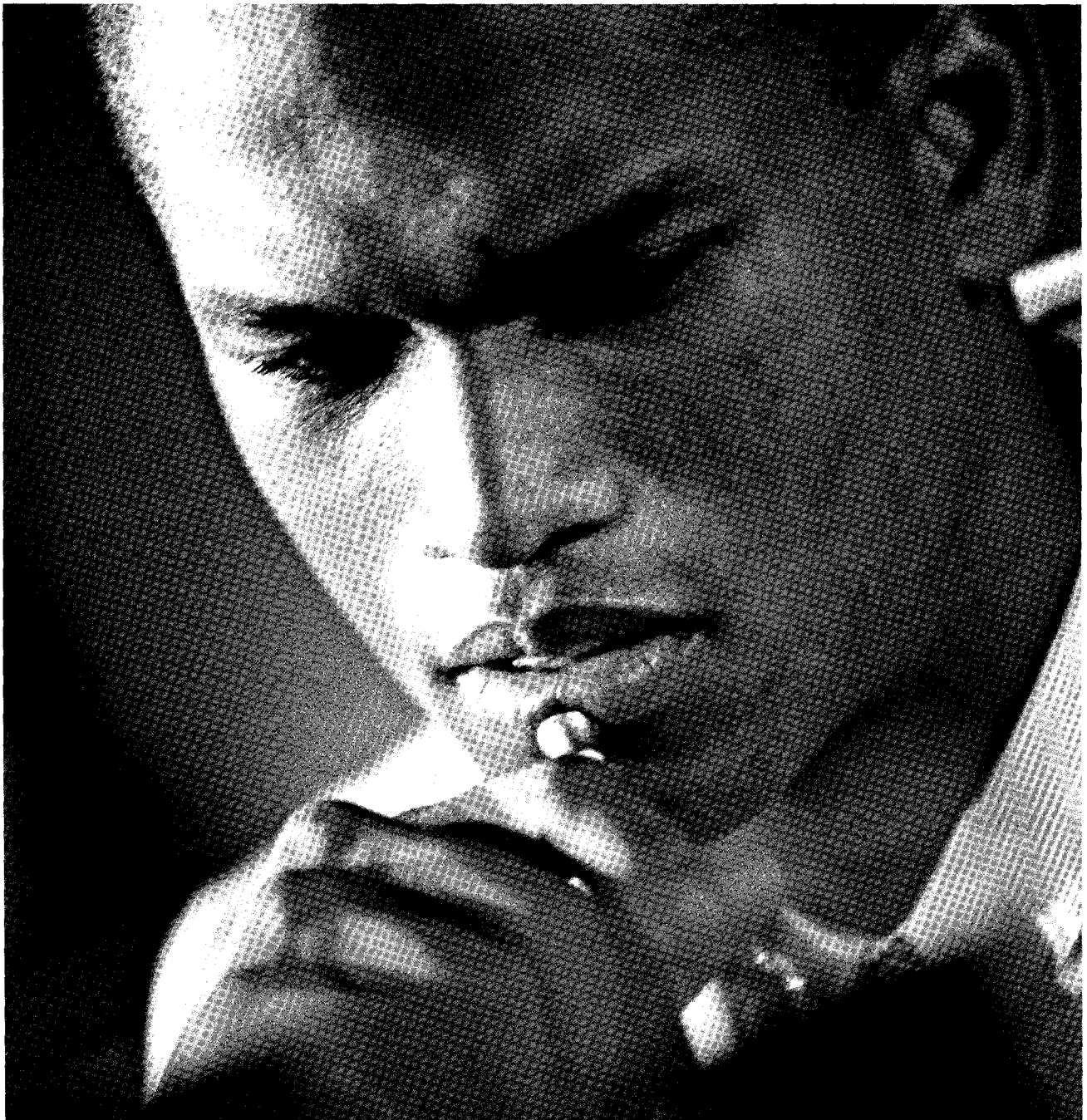
Remember:

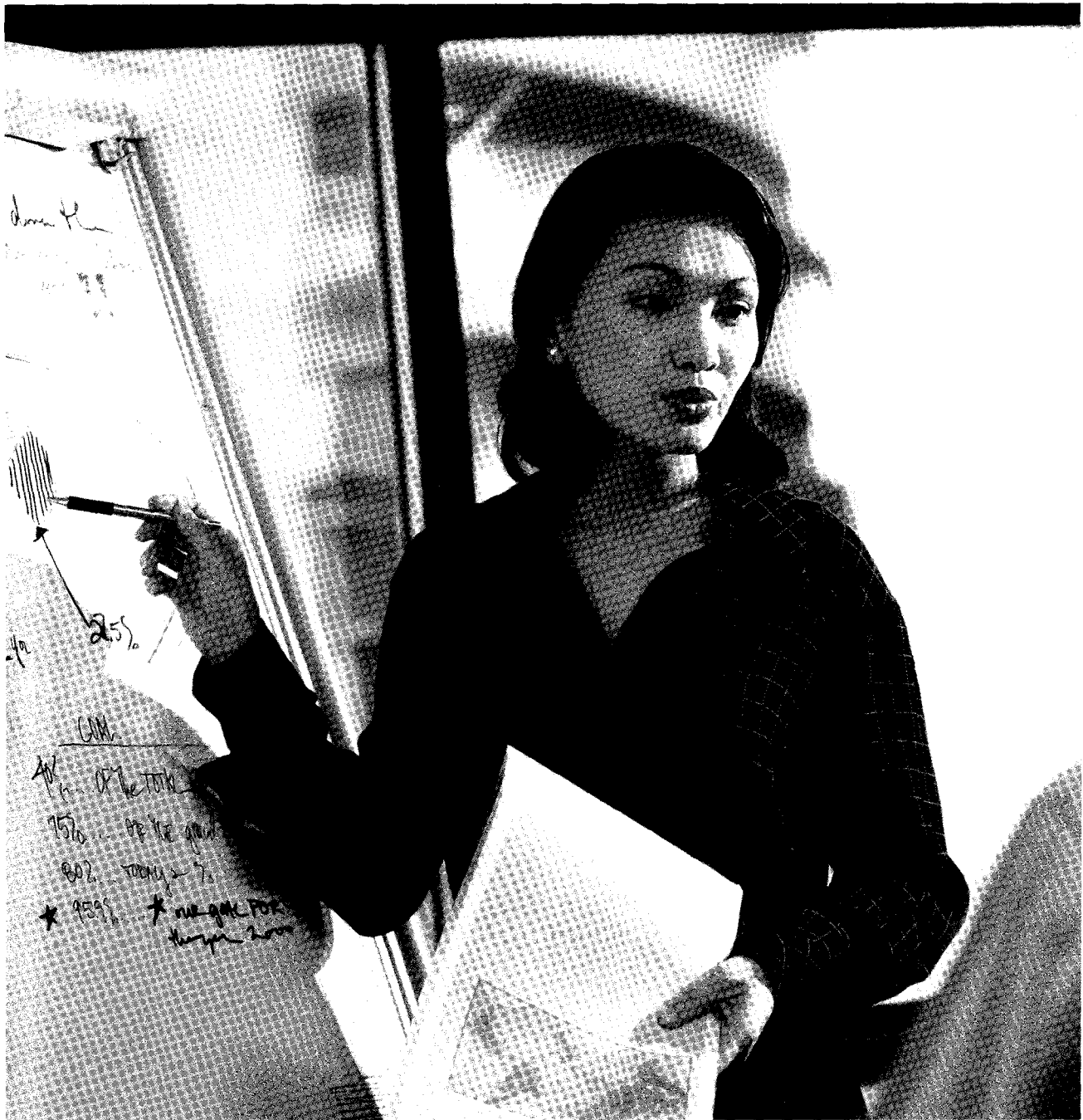
Talking about these
issues helps ensure we're
successfully complying
with laws and policies.

- Do I have all the information I need to make a good decision?
- Does my decision appear inappropriate or dishonest?
- Am I complying with the intent of the company's Business Practices Program?
- How would the company react?
- Does it hurt anyone?
- How do I feel about it?
- Would I want to read about it on the front page of the newspaper?
- What would Mom say?
- What would my children think?

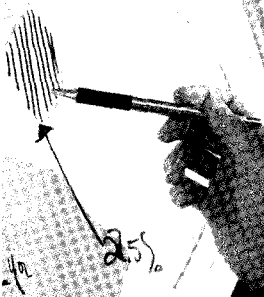
If your answers don't sit well with you, it may be that whatever you're considering is the wrong thing to do. Talk to your leader or call the Business Practices department.

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Don't
100%



GM

40% of the total
75% of the total
80% of the total
* 95% * no gap for
the year 2000

RESOURCES

Reference Materials

Ethics

Policy #10, Corporate Ethics Policy
Policy #11, Code of Ethics for Financial Professionals
Policy #24, Staffing
Policy #26, Workplace Principles
Policy #27, Policy Against Harassment and Intimidation
Policy #32, Managing Company Records – Confidential Information
Policy #54, Electronic Information Security Management
Policy #58, Internet Use

Standards of Business Practices

Employment:

Policy #21, Drug-Alcohol Policy
Policy #24, Staffing
Policy #26, Workplace Principles
Policy #27, Policy Against Harassment and Intimidation
Policy #42, Fire Prevention
Policy #43, Public Safety
Policy #44, Workplace Threats and Violence
Policy #45, Firearms – Deadly Weapons
Policy #59, Employee Identification – Access Badges
APS Accident Manual
Palo Verde Fitness for Duty Program
Palo Verde Occupational Health and Safety Program
Cholla Power Plant Safety Handbook
Four Corners Power Plant Safety Handbook
Life Maps Resource Guide

When faced with
circumstances seemingly
not covered by the Ethics
Policy or the Standards of
Business Practices,
seek help.
Avoid potential conflicts,
even when policies don't
seem to address the
issue.

Nuclear Safety:

Palo Verde Leader's Guide
Palo Verde Employee Concerns Program

Environmental Protection:

Policy #41, Environmental Health and Safety
Environmental Health and Safety Management Plan
Environmental Health and Safety Management Practices
HelpLine
Palo Verde Employee Concerns Program

Confidentiality:

Policy #10, Corporate Ethics Policy
Policy #11, Code of Ethics for Financial Professionals
Policy #32, Managing Company Records – Confidential Information

Intellectual Property:

Policy #32, Managing Company Records – Confidential Information
Policy #33, Copyrights, Patents and Trade Secrets
Policy #37, Trademarks and Service Marks

Laws and Regulations:

Policy #11, Code of Ethics for Financial Professionals
Policy #12, Insider Trading
Antitrust Compliance Guide
Pinnacle West FCC Compliance Manual

Codes and Standards of Conduct:

ACC Code of Conduct:

Public Folders

<http://buspractices/>

www.cc.state.az.us/utility/electric

Federal Energy Regulatory Commission:

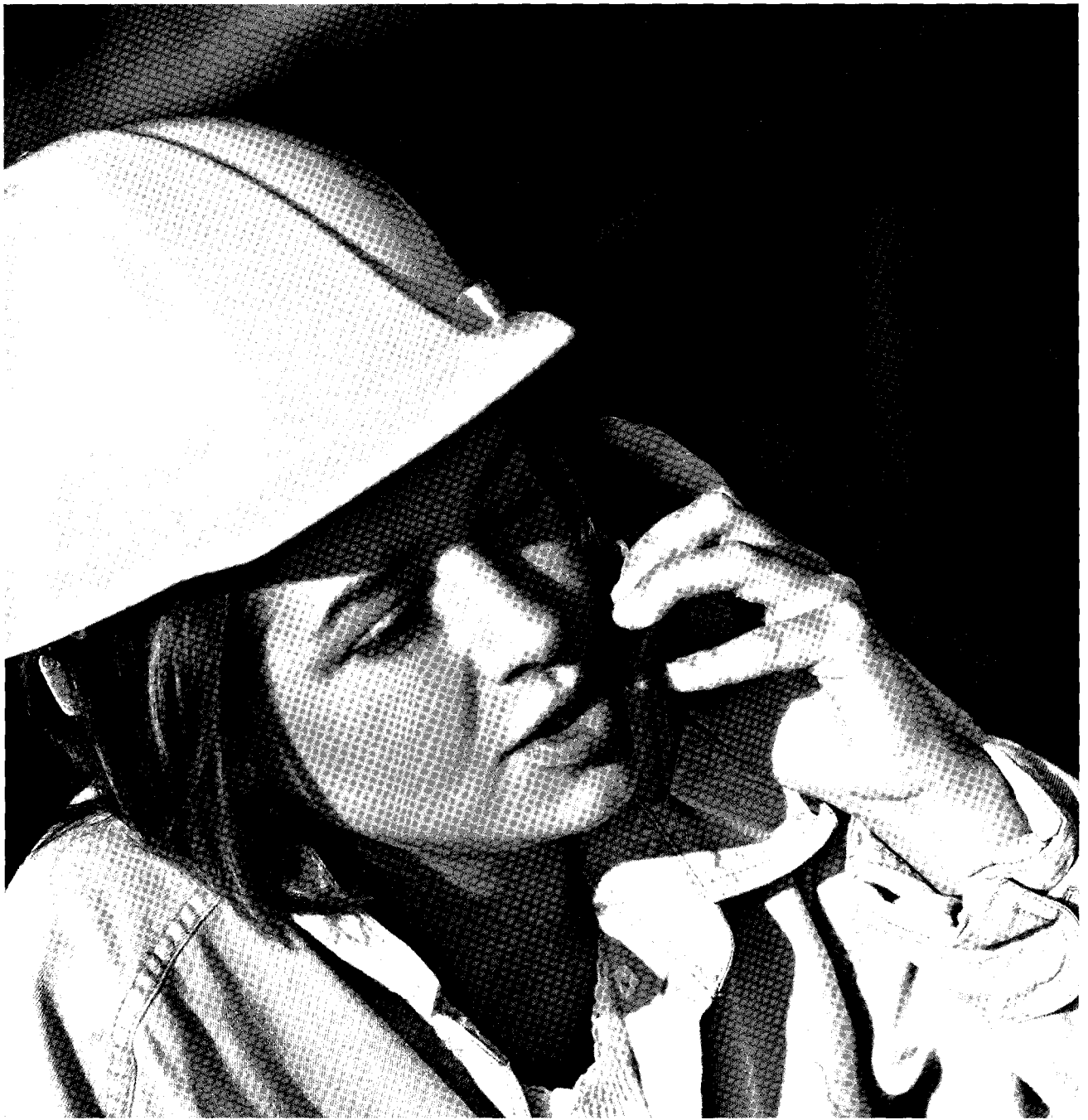
<http://buspractices/>

www.ferc.gov

Note:

This booklet is intended to provide guidance on employment questions and expectations. It does not constitute an express or implied contract of employment between the company and its employees.

The company reserves the right in its sole discretion to initiate new, or revise existing, policies and procedures.

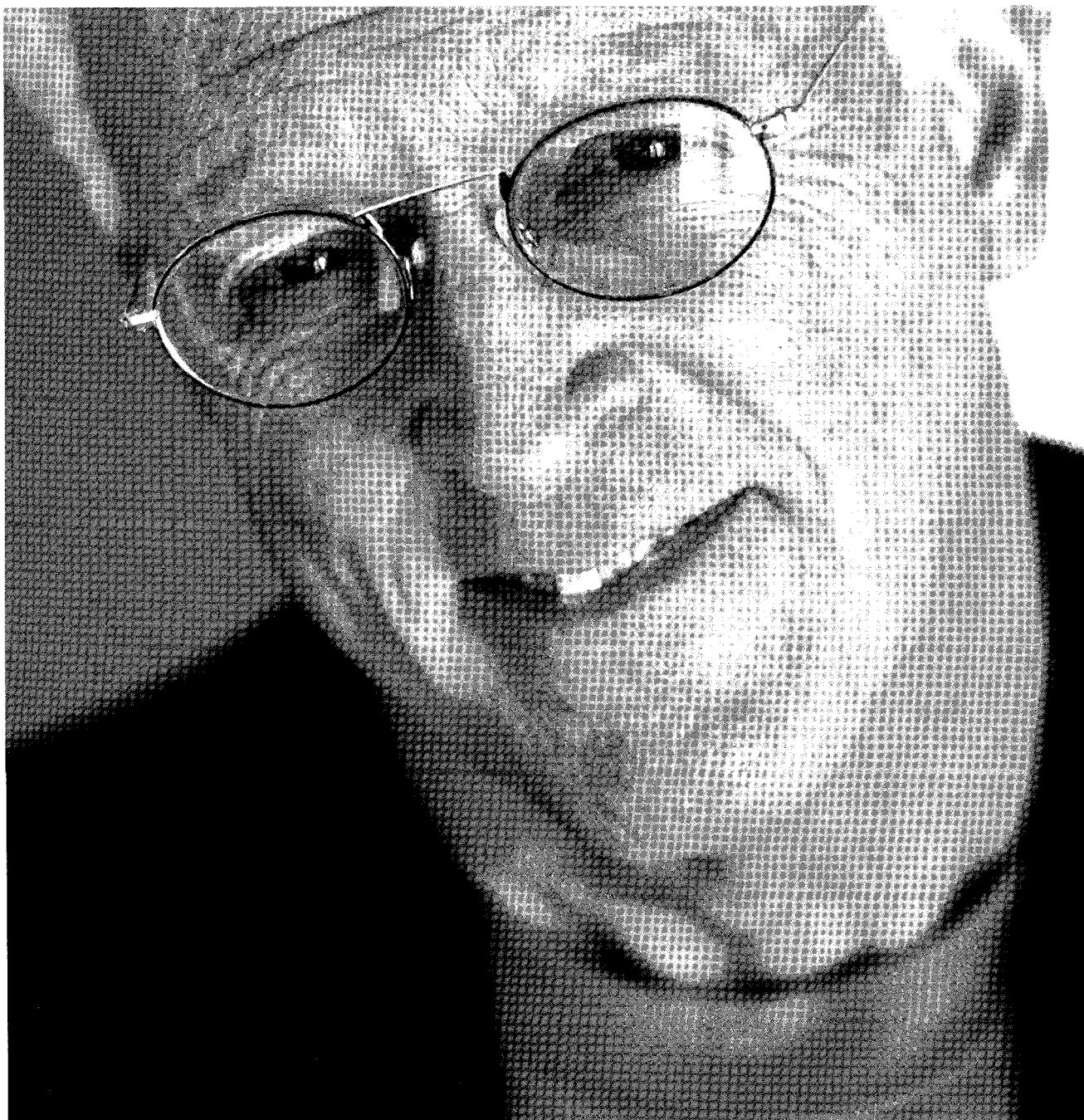


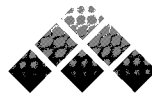
Key Phone Numbers

	Internal	External
Business Practices	81-2979	602-250-2979
	81-3235	602-250-3235
HelpLine.....	1-800-446-8441	1-800-446-8441
Audit Services	81-2605	602-250-2605
Employee Assistance Program	81-2465	602-250-2465
Employee Concerns.....	1-800-446-8441	1-800-446-8441
Environmental Health & Safety	81-3241	602-250-3241
Governmental Affairs		
Federal Affairs	880-655	1-202-293-2655
Public Affairs.....	81-2866	602-250-2866
Health Services		
Cholla	871-350	928-288-1350
CHQ	81-2163	602-250-2163
Deer Valley	83-7246	602-371-7246
Four Corners	863-497	505-598-8497
	863-391	505-598-8391
Human Resources		
Benefits	81-2324	602-250-2324
Client Services	81-2472	602-250-2472
Compensation.....	81-3334	602-250-3334
Staffing.....	81-2101	602-250-2101
Information Services		
Customer Care Center.....	83-7300	602-371-7300
Energy Delivery.....	81-4090	602-250-4090
Generation Services.....	81-4577	602-250-4577
Power Trading.....	81-2585	602-250-2585
Shared Services	81-4900	602-250-4900
SunCor/APSES/El Dorado	81-5090	602-250-5090

Key Phone Numbers, continued

	Internal	External
Law Department	81-3630.....	602-250-3630
New Technology Ventures	81-3181.....	602-250-3181
Pricing & Regulation Adm.		
FERC Regulatory	81-2949.....	602-250-2949
Regulatory	81-2310.....	602-250-2310
Procurement		
Corporate	81-4398.....	602-250-4398
Energy Delivery	83-6902.....	602-371-6902
Security		
Security Operations – 24 Hrs.	81-2222.....	602-250-2222
Security	81-2813.....	602-250-2813
Transportation	83-7346.....	602-371-7346
Palo Verde		
Employee Assistance Program	82-3338.....	623-393-3338
Employee Concerns Program	82-2702.....	623-393-2702
	1-800-293-6498.....	1-800-293-6498
Fitness For Duty	82-2508	623-393-2508
Health Services Clinic	82-2636.....	623-393-2636
Human Resources	82-6353.....	623-393-6353
Procurement	82-6410.....	623-393-6410
Security Operations – 24 Hrs.	82-6473.....	623-393-6473
Security	82-2736.....	623-393-2736
SunCor		
Human Resources		480-317-6825
Law Department		480-317-6889





PINNACLE WEST
CAPITAL CORPORATION

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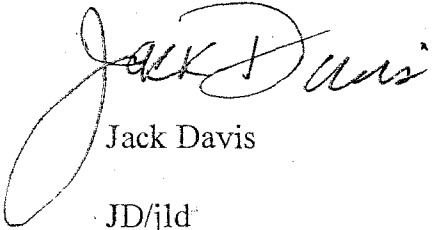
Commissioner Mundell

March 31, 2006

In fact, we produce and distribute a publication internally entitled "Do The Right Thing." Every employee of the company – from Board members to new hires – is tested on the principles in this publication and signs a statement of compliance. I've attached the document and would ask you to review it. It demonstrates the ongoing prominence these standards have in our shared philosophy and throughout our workplace not only when people are looking, but when they are not looking.

It is unfortunate that this misunderstanding has been created. I trust that your understanding of our company and the principles by which we operate will give you confidence in our commitment to clarity, integrity and high-level and reliable service to our customers and to our state.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Davis", with a large, stylized initial "J" that loops around the first part of the name.

Jack Davis

JD/jld

cc: Chairman Jeff Hatch-Miller
Commissioner Marc Spitzer
Commissioner Mike Gleason
Commissioner Kristin K. Mayes